Gulf Oil Corporation

1969 annual

report

Gulf

GULF OIL CORPORATION
Executive Offices,
Gulf Building, Pittsburgh, Pa.

Board of Directors

E. D. BROCKETT
Chairman of the Board

CHARLES M. BEEGHLY

I. G. DAVIS

F. R. DENTON

B. R. DORSEY

E. D. LOUGHNEY

BEVERLEY MATTHEWS

RICHARD K. MELLON

NATHAN W. PEARSON

ROYCE H. SAVAGE

W. K. WARREN

J. F. DRAKE
Director Emeritus

JOHN F. WALTON, JR.
Director Emeritus

GEORGE W. WYCKOFF
Director Emeritus

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Chairman of the Board and Chief Executive Officer

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President

I. G. DAVIS
Executive Vice President

E. D. LOUGHNEY
Executive Vice President

W. W. ADAMS
Senior Vice President

W. L. HENRY
Senior Vice President

A. LEWIS, JR.
Senior Vice President

MERLE E. MINKS
General Counsel

RUSSELL G. CONNOLLY
Vice President and Secretary

H. R. MOORHEAD
Treasurer

FRED DEERING
Comptroller

Principal Subsidiary & Affiliated Companies

Gulf Oil Company–U.S.
Houston, Texas

F. S. SCHWEND *President*

R. B. PHILLIPS
Executive Vice President

Gulf Oil Company–Eastern Hemisphere
London, England

JAMES E. LEE *President*

F. L. PYLE
Executive Vice President

Gulf Oil Company–Latin America
Coral Gables, Florida

CLIFF W. PEERY *President*

T. D. LUMPKIN
Executive Vice President

Gulf Oil Company–East Asia*
Tokyo, Japan

P. E. HOLLOWAY *President*

Gulf Oil Company–South Asia*
Singapore, Singapore

HERBERT I. GOODMAN *President*

Gulf Oil Trading Company
Pittsburgh, Pennsylvania

R. B. HOFFMAN *President*

Gulf Oil Canada Limited
Toronto, Canada

JERRY McAFEE *President and Chief Executive Officer*

C. D. SHEPARD
Chairman of the Board

Gulf General Atomic Incorporated
San Diego, California

Z. Q. JOHNSON *President*

Gulf Mineral Resources Company
Denver, Colorado

E. B. WALKER *President*

Gulf Research & Development Company
Harmarville, Pennsylvania

M. R. J. WYLLIE *President*

*Name changed effective April 1, 1970.

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Registrars

Morgan Guaranty Trust Company of New York, New York

Pittsburgh National Bank, Pittsburgh

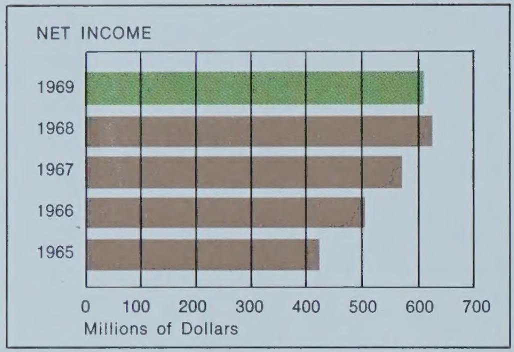
The First National Bank of Chicago, Chicago

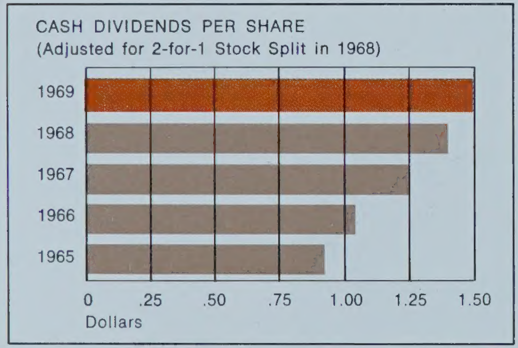
Transfer Agents

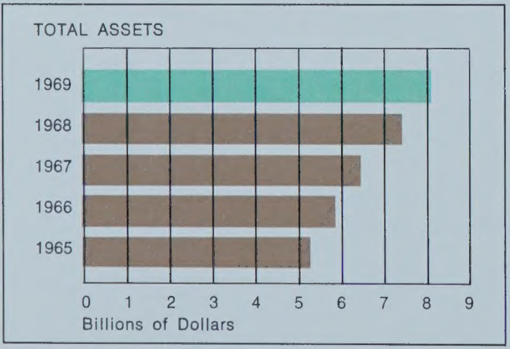
Bankers Trust Company, New York

Mellon National Bank and Trust Company, Pittsburgh

Continental Illinois National Bank and Trust Company of Chicago, Chicago







Highlights

FINANCIAL DATA	1969	1968
Net Income	$ 610,558,000	$ 626,319,000
Per Share	$2.94	$3.02
Cash Dividends	$ 311,563,000	$ 290,626,000
Per Share	$1.50	$1.40
Working Capital (current assets less current liabilities)	$1,088,697,000	$1,184,370,000
Return on Average Shareholders' Equity	12.5%	13.7%
Total Assets	$8,104,824,000	$7,498,277,000
Sales and Other Operating Revenues	$6,109,859,000	$5,595,660,000
Depreciation, Depletion, etc.	$ 450,770,000	$ 420,258,000
Capital Expenditures (including exploration expense)	$1,164,474,000	$1,198,075,000

OPERATIONS	1969	1968
Net Crude Oil, Condensate and Natural Gas Liquids Produced (daily average barrels)	2,804,000	2,544,700
Net Natural Gas Produced (thousand cubic feet per day)	3,188,100	2,994,400
Crude Oil Processed (daily average barrels)	1,453,000	1,394,200
Refined Products Sold (daily average barrels)	1,450,200	1,396,300
Coal Mined (daily average tons)	20,900	25,300
Chemicals Sold (daily average tons)	10,200	10,100

March 13, 1970

To The Shareholders of
Gulf Oil Corporation

In the twelve months ending December 31, 1969, Gulf Oil Corporation had net income of $610,558,000 for the second most profitable year in its history. This compares to $626,319,000 in 1968 and is a decline of 2.5 percent. On a per share basis the 1969 earnings represent $2.94, as against $3.02 in the preceding year.

In 1969 Gulf paid dividends of $1.50 per share, totalling $311,563,000. This compares to $290,626,000 paid in 1968, or $1.40 per share and was the 17th consecutive year in which cash dividends increased.

Gulf continued the pattern of growth that historically has characterized its operations. On a worldwide basis, production of crude oil, condensate and natural gas liquids increased by 10.2 percent, and of natural gas by 6.5 percent. The volume of crude processed increased by 4.2 percent and sales of refined products advanced 3.9 percent. Income from sales and other operating revenues was up by 9.2 percent while income from dividends, interest and other items more than doubled. Gulf's total revenues of $6,238 million represented an increase of $581 million over the preceding year.

However, the benefits to be expected from operational gains in volumes were offset by numerous adversities, but most importantly by increased taxes levied by national, state and local governments and inflationary increases in the general costs of doing business.

Gulf pays taxes of many kinds to many different taxing agencies around the world. In 1969 Gulf's total tax bill from all of these agencies was $1,773 million or $218 million more than in 1968.

By the term "general costs of doing business" we mean wages and salaries paid to Gulf employees, together with the sums required to buy the goods and services of hundreds of suppliers necessary to carry on the exploration, production, processing, selling, research and administrative functions of the corporation. The term does not include expenditures for the purchase of crude oil, products or other merchandise. In 1969 the costs of wages, goods and services rose to $1,868 million, an increase of $220 million over 1968.

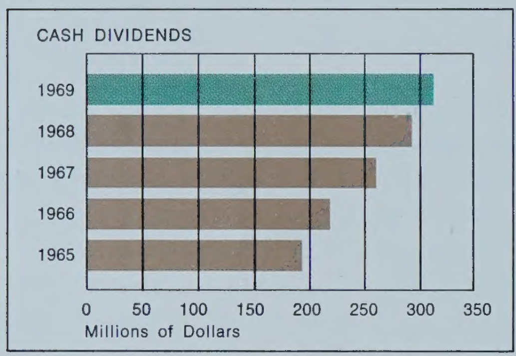
The combined total of the increases in tax expense, wage rates, and the prices charged by suppliers, who are in turn affected by rising wage and tax rates, was $438 million, or more than two-thirds of the 1969 net income.

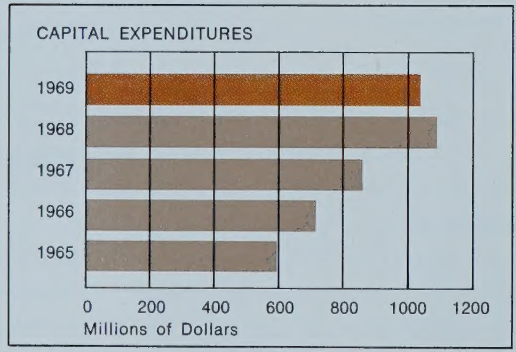
We would be less than frank if we did not point out that increased taxes will be incurred again in 1970. During 1969, the U. S. Congress reduced from 27½ percent to 22 percent the rate at which percentage depletion for petroleum is to be calculated, and enacted other changes in the Federal tax laws which will increase Gulf's tax bill in 1970. Inevitably these increases will serve to bring about an upward revision of the industry price structure.

Altogether, 1969 was a difficult year. At the beginning of the year, strikes at several U. S. and, later, Canadian refineries and a fire at the refinery in Puerto La Cruz, Venezuela, hampered operations and required costly adjustments in crude and product supply systems. These were followed in the autumn by hurricanes which inflicted severe damage to onshore as well as offshore installations in the Louisiana area, and resulted in a loss of production as well as further costly adjustments to supply systems.

In October the Bolivian government, without warning, nationalized Gulf's Bolivian oil and gas fields and seized Gulf's facilities, including administrative offices in La Paz.

Gulf spent 10 years and $95 million in Bolivia before it could export one drop of oil, and since concession rights were granted in 1955 has invested nearly $150 million. Taking the entire period in which Gulf operated in Bolivia, it had no operating profits. Yet, during the same period, the





Bolivian government received nearly $18 million from Gulf in royalties, taxes and other payments.

Gulf dealt with six successive governments in Bolivia, always in compliance with Bolivia's petroleum code. We modified our concession agreement in a number of instances to help stabilize and advance the economy of Bolivia during periods of economic crisis. Gulf granted Bolivia millions of dollars in loans for such things as pipelines and petroleum facilities, which are essentially unrepaid. Gulf supplied without charge, at the wellhead, large quantities of natural gas for domestic use in Bolivia.

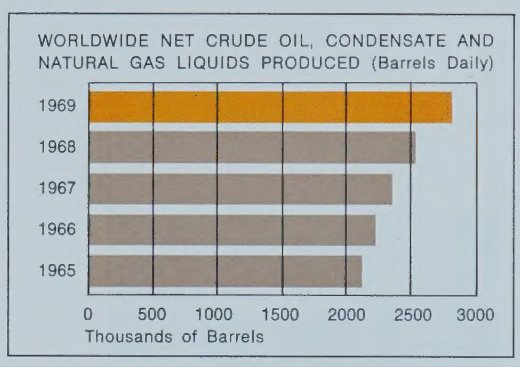
Still, the properties were nationalized, and a completely satisfactory resolution of this problem will take time. Nonetheless, we believe that Gulf's past demonstrations of concern, cooperation and goodwill will allow us to reach a dignified and equitable settlement with the Bolivian government. Until then, we must and will take whatever steps are necessary to protect the interests of our shareholders.

We are deeply aware of the air and water pollution that is plaguing much of our land, and we are pledged to do our share to return these precious natural resources to a more normal state. We have for many years systematically installed air and water cleaning devices in all of our manufacturing installations, and on February 12, 1970, we announced that we would be prepared to market an unleaded gasoline as soon as automobiles with low-compression engines designed for such fuel are generally available to the public. This will require Gulf and the industry generally to make costly changes in refineries and marketing systems.

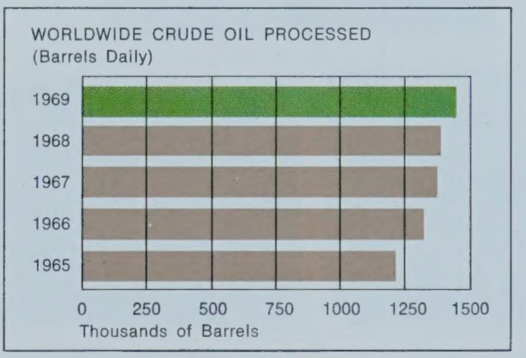
However, with the petroleum industry working to develop fuels and the automotive industry working to develop engines, we believe that the technological problems of equipping the highly efficient internal combustion engine with devices which will reduce its objectionable emissions to an acceptably low level have largely been solved, at least in the technological sense. It is to be hoped that the automobile manufacturers will produce engines requiring reasonably low octane fuels—90-octane or below. If this is done the cost to the

petroleum industry, and ultimately to the motoring public, will be considerably less than it will be if unleaded fuels of higher octanes are required.

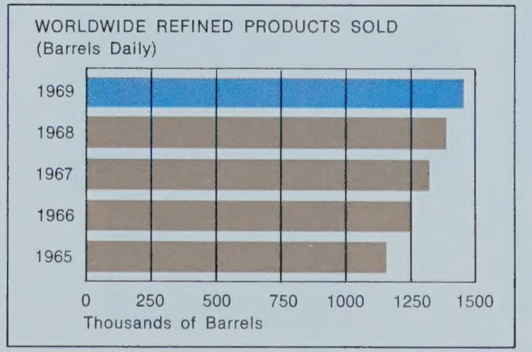
Despite all of this, we continue to look to the future with optimism. The decade of the Sixties, now closed, was one of momentous progress and change, and we can already see that the decade of the Seventies we are now entering will bring even greater change. Just as it would be misleading and erroneous to attempt to measure all that has been accomplished during the past ten years by the events of any one year, so it would be short-sighted and erroneous to allow the conditions of rising taxation and inflationary increases in wages and prices presently prevailing to persuade us that the decade now beginning is anything other than one of great promise and opportunity.



For the past ten years Gulf has carried out an expanding program of capital investment which required expenditures of more than $1 billion in 1968 and again in 1969. In 1970, Gulf's capital program will be at a reduced level, but the important fact is that this program has created and is continuing to create additional production facilities, deep water terminals, mammoth tankers, refineries, service stations and other installations. They are an assurance that, in 1970 and the years ahead, the volume of Gulf's business will continue to grow.



As we have in some other years, we close this letter with a tribute to Gulf employees. In Nigeria, Bolivia, Louisiana, and elsewhere they carried on under circumstances that were not merely difficult, but which at various times in different places involved physical hardship and personal danger. The people who work for Gulf are loyal, competent and, when occasion demands, people of heroic devotion. They have our gratitude.



Respectfully submitted,

E. D. Brockett
Chairman of the Board

B. R. Dorsey
President

Gulf Oil Company—U. S.

Gulf Oil Company–U.S., headquartered in Houston, Texas, is an operating unit of Gulf Oil Corporation with responsibility for Gulf's petroleum and petroleum-related activities—such as natural gas, gas liquids and chemicals—in the United States. As such, it was Gulf Oil–U.S. which felt most seriously the effects of higher taxes, higher general costs, and the numerous adversities of 1969.

One of these requires special mention. Hurricane Camille was possibly the most ferocious wind and rainstorm that has visited the Louisiana-Mississippi Gulf coast. Wind velocities up to 190 miles per hour and wave heights of 75 feet were recorded. In South Pass Block 61 a Gulf platform was blown over causing the loss of both platform and wells. At the Ostrica Terminal on the east bank of the Mississippi, four 78,000-barrel tanks, half full of oil, were moved 40 to 50 feet off their concrete platforms. Throughout the area the damage to gathering stations, pumps, and other equipment was extensive. The effect of the storm on Gulf's employees in the area was tragic. Of 274 Gulf families living along the river from Venice to Empire, 250 suffered total loss of homes and everything they contained. In some instances houses simply disappeared, leaving bare concrete slabs to mark where they had been. The restitution by Gulf of employees' financial losses was part of the hurricane's cost.

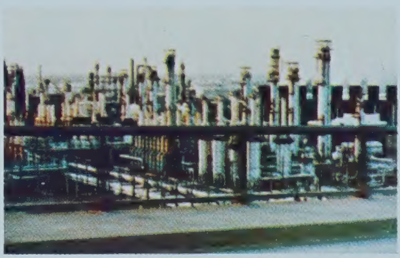
The damage to Gulf was in excess of $15 million. As a consequence of the storm, Gulf's production was reduced by 3,000 daily barrels for the year. The loss in gas production in Louisiana was equivalent to 10 million cubic feet per day for all of 1969.

Operating setbacks did not affect the continued, vigorous search by Gulf Oil–U.S. for additional reserves of oil and gas. At year's end, Gulf held by mineral fee or leaseholds 8.8 million acres of producing or prospective oil or gas lands spread among 26 states, including Alaska, of which 1.7 million were classified as producing acreage. In 1969, Gulf drilled, or shared with others in drilling, 909 exploratory and development wells of which 812 were completed as producers.

In September, Gulf participated in a state lease sale on the North Slope of Alaska, in partnership with BP-Alaska.

This company is a subsidiary of The British Petroleum Company Limited, with which Gulf shares a 50 percent interest in Kuwait. BP-Alaska has been exploring the North Slope for a number of years and has made a major discovery of oil on the North Slope. Careful analysis of the data available caused Gulf and BP-Alaska to move considerably westward of the Prudhoe Bay area and concentrate on six blocks in the Colville River delta. They were acquired at a cost of $97 million, of which Gulf provided $93.5 million and became the operator. A rig has been moved in and drilling has begun.

In 1965 Gulf's production department decided that improvements in drilling technology coupled with increased efficiency in reduction of the cost-per-foot of deep wells had reached a point where deep drilling programs might be undertaken profitably in carefully selected areas. Tests were begun in the Delaware basin area of Pecos, Ward and Reeves counties in West Texas. The tests resulted in the discovery of prolific natural gas deposits in the Ellenberger formation. Producing the Ellenberger requires that wells be drilled to depths of 20,000 feet or more. Since the beginning of the program in 1966, Gulf has drilled, or participated with others in drilling 49 wells, of which 41 were completed as producers in the Ellenberger formation. In 1968 and again in 1969 an intensified development program resulted in very substantial additions to Gulf's natural gas reserves. Portions of these reserves have now been committed to intrastate purchasers under 20-year contracts which will produce approximately $20 million per year in additional revenues for Gulf.



During 1969 construction of the new 155,000 barrel-per-day Alliance Refinery, on the Mississippi River about 20 miles down river from New Orleans, proceeded satisfactorily. This refinery has been designed to use feedstocks of crude, butanes and natural gasoline to produce a high percentage yield of motor gasoline and jet fuels. It is anticipated that the Alliance Refinery will go on stream in the last half of 1971. It will increase by 20 percent Gulf's U.S. refining capacity.

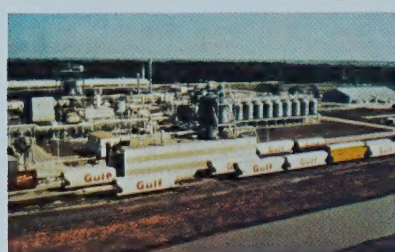
In January of 1969 five of the seven refineries Gulf operates in the United States were struck by the Oil,

Gulf Oil Company—U.S. (continued)

Chemical and Atomic Workers Union. The strike lasted about three weeks at the Port Arthur, Black Creek (Mississippi), Santa Fe Springs (California) and Cincinnati refineries and about five weeks at Toledo. The Port Arthur and Toledo refineries were operated during the strike at reduced levels. Although the volume loss of refined products occasioned by the strike was largely made up during the remainder of the year, the combined effects of Hurricane Camille and other interruptions made it impossible to attain scheduled 1969 increases.

Throughout 1969 Gulf's United States marketing operations continued the improvement begun in 1968. For the second year in a row sales of automotive gasoline and kerosene-type jet fuel outpaced the industry reflecting continued success with the strategy and programs employed.

Advertising stressed quality products, prompt service and depicted Gulf service stations as "travel agencies with pumps." These messages reached mass audiences through continued network sponsorship of the "Wonderful World of Disney" and "Instant News" which, in large part, consisted of coverage of the voyages to the moon and played to the largest audiences in television history.



During the year, in Houston, Gulf began testing an advanced concept of customer service in its new car-care centers. Designed to provide the customer with a total service, total convenience package, these centers offer in addition to gas, oil, tires and automotive accessories the added dimension of tune-up, light repair, car rentals and a full service car wash. These car-care centers have proved to be very popular with car owners.

Gulf's alliance with Holiday Inns whereby travelers pay their bills for food and lodging as well as gas, oil and other automotive needs with Gulf Travel Cards continued to find increasing favor with the motoring public.

In 1969 Gulf expanded its participation in the travel and recreational field through a substantial minority interest in the formation of Venture Out in America, Inc. Venture Out will develop and operate a system of high quality resorts for owners of recreational vehicles such as travel trailers, truck campers, camp trailers and motor homes. These resorts will offer heated swimming pools, playgrounds, underground utilities and central buildings of modern design. Space will be available to travelers on a rental or purchase basis.

Production and sales of natural gas continued to increase

in 1969, although the rate of increase was somewhat lower than in recent years. On the other hand, the demand for gas liquids began increasing at a fast pace. A study of Gulf's own internal gas liquids requirements plus those of Gulf's customers indicated that total needs may double over 1969 requirements in the next few years. Consequently, four new gas liquids plants were put in production, and two others will be expanded in 1970.

One of the reasons for this large increase in demand is the continued expansion of chemical facilities in the plastics and petrochemical divisions.

Gulf's Chemicals Department sales volume remained virtually unchanged. Profitability continued to be affected by the prolonged depression in agricultural chemical prices and the impact of a strike early in the year on the petrochemical output. However, the effects of lower agricultural chemical realizations were to a substantial extent offset by a stringent cost-reduction program, and petrochemical operations reached high levels by year end. Gulf's plastics business showed a 20 percent upturn in volume accompanied by higher prices improving the profitability of this division, and enabling the department to reach higher profit levels in 1969.

Gulf continued its efforts to expand and strengthen its position in the fast-growing plastics and petrochemicals field. At Orange, Texas, a new 80 million pound per year high-density polyethylene plant went on stream near the end of the year. At Port Arthur, plants yielding 900 million pounds of ethylene, 400 million pounds of propylene, and 450 million pounds of cumene annually will be started up in 1970. A major new aromatics project at the Alliance Refinery and a 500 million pound per year styrene plant at Donaldsonville, Louisiana, will reach completion in 1971.

U. S. Operating Statistics

	1969	1968
Net crude oil, condensate and natural gas liquids produced (daily average barrels)	*602,300*	*598,800*
Net natural gas produced (thousands of cubic feet per day)	*2,509,500*	*2,367,000*
Crude oil processed (daily average barrels)	*687,500*	*687,200*
Refined products sold (daily average barrels)	*796,200*	*786,600*
Chemicals sold (daily average tons)	*8,500*	*8,500*
Equity interest (50% or less)	*—*	*400*

As it has each year since 1953, Gulf, in February, 1970, made a distribution of Gulf capital stock, U.S. Savings Bonds and cash to 19,939 employees who are members of its Savings-Stock Bonus Plan.

The distribution consisted of $9,982,291 in savings bonds and cash, representing a return of savings deposited in the plan by employees, and a bonus of 142,122 shares of Gulf stock having a fair market value of $3,517,520 plus $289,927 in cash representing fractional share interests.

Gulf Oil Canada Limited

In the second half of 1968 the shareholders of The British American Oil Company Limited (69 percent owned by Gulf) approved changing the name of the company to Gulf Oil Canada Limited. Conversion of the B-A service stations and other properties to the Gulf emblem was begun early in 1969. Then, in April, approvals were received for the amalgamation of two subsidiaries, Shawinigan Chemicals Limited and Royalite Oil Company Limited, with Gulf Oil Canada.

Some of the benefits expected from this conversion began to be apparent almost immediately. Gulf Oil Canada showed an upturn in service station business, and during the summer tourist season a marked increase in the volume of sales on Gulf Travel Cards was recorded.

Gulf Oil Canada's 1969 operations were affected—like those of Gulf Oil–U.S.—by refinery strikes, threats of strikes, and rising general costs. However, the increase in the volume of crude, condensate, and natural gas liquids produced was in line with annual increases over the past five years and the increase in production and sale of natural gas was above the five-year average.

Gulf Oil Canada's long-term growth program calls for a concentration of effort directed toward increasing the company's reserves of oil and gas. The principal successes in this effort achieved in 1969 were in the Strachan area of Alberta and in a trend stretching south of that area. Further development in Strachan doubled the gas reserves previously discovered, and two wildcats south of the Strachan gas field resulted in discoveries of oil and gas condensate. During the year five rigs were employed in the area in order to define and develop the discoveries as rapidly as possible. Construction was begun on a gas liquids plant, 50 percent owned by Gulf Canada, and it is expected that deliveries of natural gas from the Strachan area to facilities of TransCanada PipeLines Limited will begin in the second half of 1970.

During the year Gulf Canada participated with others in drilling a wildcat in the Mackenzie River delta, which is contiguous to the Alaska North Slope and in which Gulf Canada holds a very extensive acreage position. This well confirmed the presence of extensive sediments and evidence of hydrocarbons. Further exploratory drilling will be carried out during 1970.

Gulf Canada also is seeking new oil or gas reserves in Eastern Canada. Exploratory work on offshore acreage has been held up pending settlement of a jurisdictional dispute between Canada and France. In the latter part of the year, a wildcat was spudded on Quebec's Gaspé Peninsula.

During the year Gulf Canada continued construction on two new refineries and a deep-water terminal. One of these, which will be operated in conjunction with the new terminal, is a 60,000 barrel-per-day plant at Point Tupper in Nova Scotia, which will produce a high percentage of low-sulphur fuels for Canada's maritime provinces.

Point Tupper is located on the Strait of Canso and has what has been described as the finest sheltered harbor in North America with depths of 100 feet of water available only 700 feet offshore. When completed in 1970, the Point Tupper dock will become the first in North America capable of receiving vessels of Gulf's new and expanding fleet of 326,000 deadweight ton tankers. One voyage, fully loaded, of one of these tankers will deliver enough crude to keep the refinery at capacity operation for 40 days. The Point Tupper refinery is expected to be on stream late in 1970.

Gulf Canada's second new refinery, an 80,000 barrel-per-day plant, is being built at Edmonton, Alberta. In contrast to the Point Tupper refinery, it has been designed for maximum production of gasoline, diesel fuel, and light distillate; and these products will comprise up to 94 percent of its output. It is anticipated that the Edmonton plant will be on stream by mid-1971 and when completed it will replace several small refineries, two of which will be converted to asphalt production. It will also give Gulf Canada a greater degree of operational flexibility and profitability.

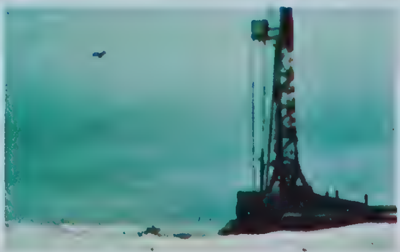
During much of the year, a prolonged industry-wide strike in British Columbia delayed completion of an expansion of the Port Moody refinery's capacity to 30,000 barrels per day from its present 20,000. During the strike, the Port Moody plant and the British Columbia marketing facilities continued operations with supervisory personnel, and customer requirements were met.

In the operations of Gulf Canada's petrochemical business, progress continued to be made in the conversion of acetylene-based processes to a more efficient and economical ethylene base. A new olefin plant was started up at Varennes, which is across the St. Lawrence River from Montreal, with initial production at the rate of 250 million pounds per year. This capacity could be increased to 500 million pounds in the future.

Also at Varennes, a new oxychlorination unit was put on stream, doubling the capacity of the vinyl chloride monomer facilities to 120 million pounds per year and permitting the ultimate elimination of a higher cost, acetylene-based monomer process at Shawinigan Falls.

Canadian Operating Statistics

	1969	1968
Net crude oil, condensate and natural gas liquids produced (daily average barrels)	85,800	80,100
Net natural gas produced (thousands of cubic feet per day)	355,000	315,000
Crude oil processed (daily average barrels)	197,300	194,900
Refined products sold (daily average barrels)	186,700	184,800
Chemicals sold (daily average tons)	1,100	1,100

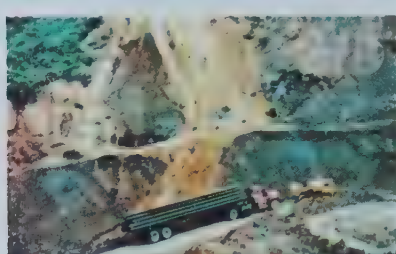


Gulf Oil Company—Latin America

Headquartered in Coral Gables, Florida, Gulf Oil Company—Latin America was created in 1968 for the purpose of gathering into one integrated operation all of Gulf's activities in South America, Central America and the Caribbean Islands. During 1969 much time and effort was devoted to the essential task of consolidating Gulf's various activities in this area and in completing the staff reorganization necessary for efficient administration. In this effort the Corporate Manpower Development Program, described in Gulf's 1968 Annual Report, proved invaluable. The management of Gulf—Latin America filled some 21 jobs requiring experienced men of managerial calibre and all but one came from within the Gulf organization.

Latin American operations were hindered by a fire at the Venezuela Gulf Refining Company (Vengref) refinery at Puerto La Cruz, Venezuela, and by the nationalization of Gulf's Bolivian oil and gas fields and facilities. Lower prices for Venezuelan crude also had an adverse affect on profits.

The Vengref refinery, in which Gulf is a majority partner and the operator, was shut down by a serious fire in early March. Although the loss in terms of facilities was partly offset by insurance, and reconstruction begun immediately, the effect was a reduction in the volume of crude oil processed by Gulf—Latin America amounting to more than 35,000 barrels per day averaged over the entire year, and a reduction in refined products sold, over the same period. Gulf sold to third parties, or absorbed into its own system the crude oil that otherwise would have been delivered to Vengref, so that the refinery shutdown was not permitted to reduce the production of Latin American crude.



The result was that the production of crude, condensate and natural gas liquids showed a gain of 17,200 barrels per day over 1968 despite the loss of some 32,000 daily barrels of crude from Bolivia starting in mid-October.

The main reason for the increase was the completion in April of a Trans-Andean pipeline from the Putumayo area of Colombia to the seaport town of Tumaco, Colombia. This enabled the export of Colombian crude, first discovered in 1963, to begin. Since export commenced, Gulf's Colombian volume has been 26,800 daily barrels. It is anticipated that this volume will increase as new fields are placed on production.

Gulf and another oil company are equal partners in an Ecuadorian development, adjacent to the one in Colombia. In 1966 the partnership acquired concessions in Ecuador and began an exploration program, the results of which enabled the companies to negotiate an agreement with the Ecuadorian government for the construction of another pipeline across the Andes to the Pacific. The construction of this line will allow Gulf to export Ecuadorian crude beginning in early 1973.

During the year, agreements were reached which led to the creation of the Argentine Gulf Oil Company and the establishment of an office in Argentina. Gulf immediately began exploration projects in several Argentinian provinces. This work will be followed by an intensified effort to examine opportunities that may exist for downstream business in that country.

In the area in which Gulf—Latin America operates, Gulf has three refineries. These are Vengref, the Caribbean Refinery in Puerto Rico, and a small plant in Ecuador.

Gulf has full line marketing operations in Costa Rica, Guatemala, Panama, Puerto Rico, Ecuador, Peru, Venezuela, and on some of the Bahama Islands. Although the totals are necessarily small when compared to Gulf's marketing operations in other countries, in Guatemala, Puerto Rico, Ecuador and Peru, refined product sales registered a 52 percent gain in average daily volume during the year.

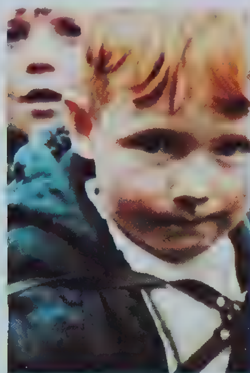
Latin American Operating Statistics

	1969	1968
Net crude oil, condensate and natural gas liquids produced (daily average barrels)	***209,000***	*191,800*
Net natural gas produced (thousands of cubic feet per day)	***78,600***	*87,400*
Crude oil processed (daily average barrels)	***145,400***	*175,800*
Refined products sold (daily average barrels)	***74,400***	*80,500*
Chemicals sold (daily average tons)	***200***	*300*

Over the past years, Gulf has developed in Venezuela a gas liquids business which in 1969 amounted to 7,900 daily barrels of LP-gas sold. These operations were adversely affected by the Vengref fire, but with the restoration of the refinery, Gulf's Latin American LP-gas operations are expected to show substantial gains in 1970.

Gulf Oil Company—Eastern Hemisphere

Gulf Oil Company—Eastern Hemisphere is the coordinating agency in London for operations in Europe, Africa and the Middle East. Taking into account Gulf's share of operations in which its equity interest is 50 percent or less, the volume increases in Eastern Hemisphere business during 1969 were unprecedented. Net production of crude, condensate and natural gas liquids increased by an average of 232,000 daily barrels for the year, or 13.8 percent. Refinery throughput increased by 90,000 daily barrels, or 23.6 percent. Sales of refined products increased by 42,000 daily barrels, or 12 percent, giving Gulf a higher than industry average gain in the countries where it markets these products.



Most of the crude Gulf delivers to its European refineries and customers comes from the Middle East, principally Kuwait. For the past several years, the governments of the Middle Eastern producing countries have exerted strong pressure on all of the international oil companies to increase production of crude oil. In addition, in recent years many U. S. and European companies have become new producers of crude oil in the Middle East and North Africa only to find themselves with an abundance of oil and very few markets. The combination of these two factors has created a condition of over-supply of both crude and products in Europe and has resulted in a decline in prices in 1969.

However, it must be emphasized that 1969 was the year in which Gulf's very large capital investment program in Europe and elsewhere in the Eastern Hemisphere began to deliver some of the benefits expected of it. This capital investment program has, in view of the U. S. foreign direct investment restrictions, necessitated a large amount of European borrowings.

During the year, four more of the new 326,000 deadweight ton tankers went into service on the run between Kuwait and Bantry Bay, Ireland, bringing to six the number in operation during the last quarter. Gulf's experience with these ships actually exceeded expectations. They have proved to be all but impervious to bad weather and to handle better both at sea and in docking procedures than many smaller tankers now in service. Their capacity to deliver 2,300,000 barrels of crude per trip to the Bantry terminal on Europe's doorstep provided substantial economies of transportation which helped to counter-balance the effect of falling prices. Five more ships of the same size are now being built for Gulf in Spanish shipyards. The year also was one in which the new refinery at Milford Haven in Wales completed its first full year of operation, with an average daily throughput of 69,000 barrels. This, coupled with the start-up of new facilities to increase the capacity of the refinery in Denmark, accounted for the 90,000 daily barrel increase in European refinery throughput. At the same time construction was begun on a fourth wholly owned refinery

near Milan, Italy, strategically located to supply Gulf's expanding marketing operation in that country.

Further beneficial effects of the European investment program will materialize in 1970, arising from the start-up in 1969 of the Milford Haven aromatics complex; the coming on stream in 1970 of the Europoort chemical plant where products will include ethylene, cumene and styrene; and the recently completed Rio Gulf Petrolquimica plant at Huelva, Spain, to produce benzene and cyclohexane.

During 1968 Gulf added to its Eastern Hemisphere marketing system 1,000 service stations in Italy and 74 in West Germany. Consequently, 1969 was the first full year of operation for these additional outlets under Gulf ownership and they contributed to the 42,000 barrels per day increase in the sale of refined products. The European countries in which Gulf has branded service station operations are Belgium, Denmark, Finland, Germany, Great Britain, Italy, Luxembourg, The Netherlands, Norway, Sweden and Switzerland.

Eastern Hemisphere (ex Asia) Operating Statistics

	1969	1968
Net crude oil, condensate and natural gas liquids produced (daily average barrels)	1,906,900	1,674,000
Equity interest (50% or less)	6,300	7,200
Net natural gas produced (thousands of cubic feet per day)	245,000	225,000
Crude oil processed (daily average barrels)	397,800	313,500
Equity interest (50% or less)	75,500	69,500
Refined products sold (daily average barrels)	370,700	324,900
Equity interest (50% or less)	35,100	39,000
Chemicals sold (daily average tons)	300	100
Equity interest (50% or less)	1,000	900

During 1969 the average daily rate of Kuwait production was 1,498,600 barrels. Nigerian production averaged 185,900 daily barrels and Cabinda produced at the rate of 33,500 daily barrels. It is promising to note that in the fourth quarter Kuwait's production for Gulf's account exceeded the 1,600,000 barrels per day level. Nigeria was running above 200,000 daily barrels and Cabinda was very close to the 50,000 barrels per day mark. All of this suggests that even higher rates can be expected during 1970.

The war between the central government of Nigeria and the secessionist Eastern Region of Biafra did not seriously affect Gulf's operations, which are mainly off-shore in the Mid-west State. A return to peace is certain to bring about an upsurge of exploration and production activity. During 1969 further wildcat and development drilling discovered one new oil field off-shore and also added substantial reserves. Cabinda, as well, had a new field discovery and development drilling continued through the year.

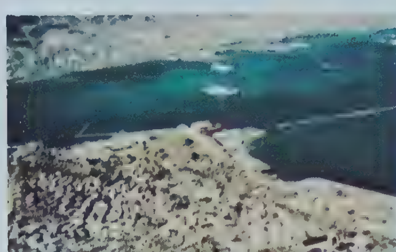
Gulf's long-term exploration and production program calls for a continuous and vigorous effort to increase its oil reserves and at the same time to diversify the geographical location of these reserves to better serve its markets.

During the year exploratory activities continued in the North Sea off Denmark, The Netherlands, Great Britain and Norway; in the Irish Sea; in Italy, both onshore and in the Adriatic Sea; in Turkey, Cameroon, Congo, Gabon, Spanish Territories, South Africa, Mozambique, Ethiopia and Libya. Encouraging oil shows have been encountered in Gabon, West Africa, and will be further evaluated by drilling in 1970.

Gulf Oil Company—Asia

Headquartered in Tokyo, Gulf Oil Company—Asia is responsible for directing Gulf's activities in the Pacific area west of Hawaii. In addition to crude oil and LP-gas sales in Japan these activities include the following: Exploration in Australia, Indonesia, The Republic of Korea, Malaysia and Thailand; participation in plastics and lubricating oil production operations in Taiwan (The Republic of China); participation in refining and marketing of petroleum products, fertilizer production and plastics fabrication in South Korea; participation in marketing and refining operations in the Philippines; and marketing in Hong Kong of LP-gas, petroleum products and plastics.

Beginning late in the second quarter of 1970 a terminal in Okinawa, almost identical with the one in Bantry Bay, Ireland, will begin operating. The new terminal will extend the area of service of Gulf's mammoth tanker fleet to Asian waters.



At the present time Gulf's operations in Korea, Taiwan and the Philippines, together with the crude sales in Japan, account for more than 95 percent of the Gulf crude being delivered to Asia. Since the Okinawa terminal is central to all four delivery points, a substantial increase in operating flexibility will be achieved through use of the terminal as a trans-shipment point for cargoes delivered in 326,000 deadweight ton tankers. During 1969, four of these tankers went into operation—THE UNIVERSE JAPAN, THE UNIVERSE PORTUGAL, THE UNIVERSE KOREA and THE UNIVERSE IRAN—after christening ceremonies in Japanese shipyards.

During 1969 Gulf announced a decision to proceed with the construction of a refinery with an initial capacity of 100,000 barrels per day adjacent to the Okinawa terminal. The new plant has been designed to process Kuwait crude and will include a 40,000 barrel-per-day HDS (hydrodesulphurization) plant to produce fuel oil of low sulphur content.

In the course of the year Chinhae Chemical Company and A-Jin Chemical Company, both in Korea and 50% owned by Gulf, operated very satisfactorily with profits exceeding previous levels. Korea Oil Corporation, in which Gulf holds a 25 percent ownership interest, began construction of a platformer/aromatics extraction unit, the first of a series of units scheduled for construction at its Wulsan Refinery which will have the effect of greatly broadening its petrochemical capacity. To be added will be an ethylene plant, a toluene dealkylation unit, a cyclohexane

unit, a butadiene extraction unit, an aromatic distillate hydrogenation unit and related storage facilities. Plans for construction of a 3,000 barrel-per-day lubricating oil plant adjacent to the Korean oil refinery at Wulsan were also initiated.

In Taiwan, the 1,500 barrel-per-day lube plant operated by China Gulf Oil Company Limited and the Chinese Petroleum Company began production of a new grade of motor oil called Gulf Jade which was introduced to improve Gulf's competitive position in the low-priced market. Studies are also being conducted to expand the capacity of the China Gulf lube plant.

Also in Taiwan the China Gulf Plastics Corporation which produces polyvinyl chloride and fabricates plastic products, participated with other resin producers to form a new company to produce vinyl chloride monomer.

In Japan, the Nippon Mining Company, with technological assistance from Gulf, completed an HDS (hydrodesulphurization) plant. This is a process for the removal of sulphur from crude oils which was developed by Gulf Research and is available for licensing. Because Japan, like all industrialized nations, is becoming more and more concerned with air pollution, the successful operation of this plant will be important to Japan and to Gulf. It is scheduled to begin operation in 1970.

Asian Operating Statistics

	1969	1968
Crude oil processed (daily average barrels)	25,000	22,800
Equity interest (50% or less)	28,100	23,400
Refined products sold (daily average barrels)	22,200	19,500
Equity interest (50% or less)	24,900	23,400
Chemicals sold (daily average tons)	100	100

In the Philippines the first phase of an expansion program was completed which increased the refining capacity from 15,000 to 23,000 barrels daily.

Except for an offshore exploration concession, Gulf, until 1969, had no business operations in Indonesia. During the year, however, a small fertilizer blending and bagging project was undertaken as a first step in establishing Gulf interests in Indonesia. Another first step was taken in Singapore by initiation of a plastics fabrication project. Both of these projects will further extend the area of Gulf interests within Asia.

Effective April 1, 1970, the name of Gulf Oil Company-Asia will be changed to Gulf Oil Company-East Asia. A different company, Gulf Oil Company-South Asia, will assume responsibility for the direction of Gulf's operations in Australia, Burma, Cambodia, Ceylon, Hong Kong, India, Indonesia, Laos, Malaysia, New Zealand, Pakistan, Singapore, Thailand and South Vietnam.

Gulf Oil Trading Company

In the new regional structure of Gulf's operating companies, the Gulf Oil Trading Company (GOTCO), headquartered in Pittsburgh, is the principal sales arm for the disposal of crude oil, bulk refined products, marine fuels and lubricants, and aviation fuels in Gulf's international trade with third parties and affiliated companies. It is also Gulf's international supply agency, balancing day-to-day the regional companies' and customers' requirements for foreign feedstocks and finished products against Gulf's world-wide availability. It also provides and operates all of the international marine transportation facilities necessary to transport these feedstocks and products, thus ensuring that their demands are met. This operational supply agency is based on short and long-term planning to make Gulf economically competitive in the international markets.

GOTCO's sales activities require the services of a number of specialists, since the sale of crude oil, refined products, gas liquids, marine fuels and lubes and aviation fuels each demands that the salesman be a technological specialist. During the year, a great deal of time and effort went into the organization of a total sales effort in which groups of these specialists were established in strategic sales centers, such as London and Tokyo, in order to gain the benefits, locally, of a continuing collaborative effort, and also to facilitate liaison and integration with overall, regional marketing programs.

During the year, GOTCO continued to make outstanding gains in two sales areas that have been selected for intensified, world-wide sales efforts. These are the sales of marine fuels and lubes and aviation fuels, particularly jet fuels.

At the end of 1968, GOTCO had established marine bunkering stations at 169 ports in 29 countries which were either Gulf-operated or in which Gulf was a participant. By the end of 1969, the list had grown to 210 ports in 46 countries.

As part of its aviation fuel program, Gulf announced in November, 1969, the delivery of the first production models of a new fleet of airport tank trucks specifically designed to provide fast fueling service for jumbo jets now coming into service and for supersonic jets when they arrive.

These new vehicles, developed by Gulf jointly with a number of specialty manufacturing companies, are each capable of giving the big jets a big drink at the rate of 1,200 gallons per minute and assure that any aircraft now in service, or expected to be in service in the seventies, can be fully fueled in less than 20 minutes in a single operation.

Gulf continued to establish new outlets at airports around the world and, in 1969, added Guayaquil and Quito, Ecuador, London, Madrid, Milan, Niagara Falls, Palma, Pittsburgh, Rome, Seoul, and Stockholm to the list of cities where international airlines are fueled by Gulf.

Gulf Mineral Resources Company

The principal purpose of the Gulf Mineral Resources Company is to find fuels now that may be needed in the future to supplement crude oil and natural gas in keeping the United States supplied with an abundance of reasonably priced energy, and maintaining Gulf's position as an energy supplier.

Headquartered in Denver, Colorado, Gulf Mineral Resources Company and Gulf Minerals Company, both wholly owned subsidiaries of Gulf Oil Corporation, carried on extensive exploration programs throughout 1969 in many areas of the United States and Canada, respectively. Early in the year Gulf Minerals Company and Gulf Oil Canada Limited, a Gulf affiliate, made an agreement to pool their non-hydrocarbon mineral interests, with Gulf Minerals Company designated as operator.

A uranium discovery made in northern Saskatchewan in 1968 developed major significance during 1969 as Gulf Minerals continued core drilling for the purpose of establishing the size and geometry of the find. By the end of October, when drilling activities were temporarily suspended to wait for ice solid enough to support aircraft, the core samples analyzed had proven the existence of ore grade mineralization for a distance of 600 feet southwest of the discovery hole and 800 feet northeast of the same point. The ore grade intersections in the core holes range

from 20 to 236 feet. Further drilling will be carried out through 1970 as weather conditions permit. Mining and milling feasibility studies and related marketing and economic studies are being made.

Another uranium discovery was made by Gulf Mineral Resources Company near Mariano Lake, New Mexico, and when core drilling necessary to outline the deposit was completed it was indicated to contain sufficient tonnage of ore grade uranium oxide for a commercial deposit. Core drilling in the Ambrosia Lake area of New Mexico also encountered uranium mineralization but at year end the drilling necessary to evaluate this third discovery had not been completed.

Gulf's coal business is conducted by The Pittsburg & Midway Coal Mining Company headquartered in Kansas City, Missouri, which mines coal in Kentucky, Kansas, Missouri, Colorado and New Mexico and sells it principally to electric power companies. The operations of Gulf Mineral Resources have, however, now given the search for additional coal reserves a double aspect. The type of deposits being sought could not only be mined and sold to existing and future coal-fired power plants but could also be converted to liquid fuel in the years ahead. Options on two deposits, both in Montana, were taken during the year. Evaluation drilling indicated that one of these deposits has the potential of producing a billion barrels of synthetic crude, and the other, which has not yet been fully evaluated, appears to possess a much larger potential.

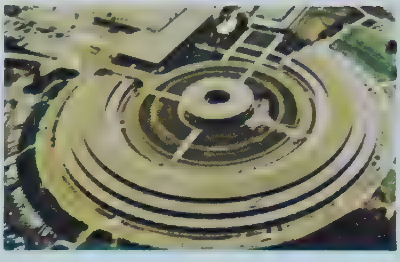
Gulf Mineral Resources is also actively interested in oil shale prospects. Its program has also been expanded to include exploration for base and precious metals and the company is examining the potential for mineral resource operations in Australia.

Gulf General Atomic Incorporated

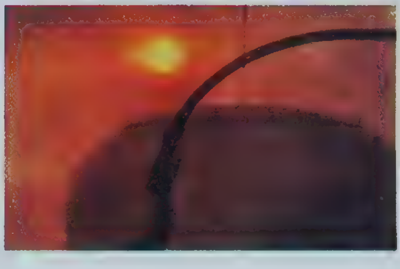
When taken together with the uranium producing capabilities of Gulf Mineral Resources Company, Gulf General Atomic becomes an integrated operation capable of designing, building and fueling nuclear reactors for

electric power generation as well as for other purposes. It is internationally recognized as a pioneer in the development of high-temperature gas-cooled reactors (known as HTGR) which are more efficient than the low temperature water reactors currently most commonly used in electric power production.

During the year Gulf General Atomic continued construction on a 330 megawatt high-temperature gas-cooled reactor power plant for the Public Service Company of Colorado. This plant is being built under the U. S. Atomic Energy Commission Power Reactor Demonstration program and is the second HTGR to be authorized. The first, a 40 megawatt plant at Peach Bottom, Pa., has proven successful through several years of operation. The Colorado plant, at year's end, was about 50 percent completed and is expected to go into operation in 1972.



As at Peach Bottom, Gulf General Atomic will fabricate and supply the Colorado plant with the nuclear fuel elements required. Gulf General Atomic is also marketing fuel elements for light water reactors in addition to fuel for its own high-temperature gas-cooled reactor systems. Thus, uranium discovered and mined by Gulf Mineral Resources will ultimately be sold by Gulf General Atomic in the form of nuclear fuel elements for electric power generation.



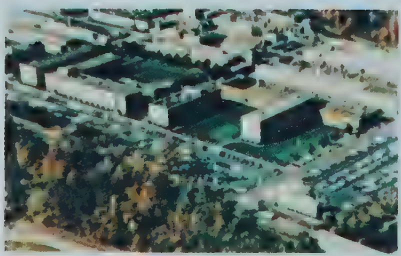
Gulf General Atomic is also engaged in a research program looking toward the development of gas-cooled fast breeder reactors. This program is being financially supported by a group of 41 utility companies, among them some of the largest in the country. The breeder reactor concept offers the potential for substantial fuel cost reductions by virtue of its ability to produce more fissionable material than it consumes. Currently, however, it is estimated that breeder reactors will not be ready for commercial installation before 1980.

Another long-term research program at Gulf General Atomic is the development of the fusion reactor, which, theoretically, can produce almost unlimited amounts of energy from the fusion of an isotope of the hydrogen atom. Technical problems involved in the effort to harness fusion for power production may be overcome sooner than is generally anticipated.

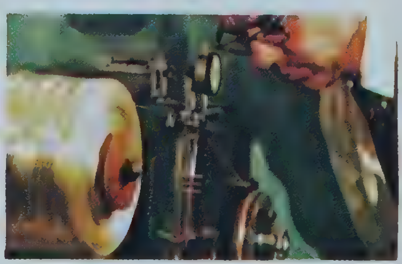
Gulf Research & Development Company

The function of the Gulf Research & Development Company (GR&DC) is to create and develop ideas, techniques, processes and products which will assist the corporation to achieve greater efficiency and greater profitability in all of its petroleum related operations.

Contributions made by GR&DC to Gulf progress in 1969 included the following:



- The development of a method whereby oil or gas seeps occurring on the ocean floor can be detected by analyzing water samples once every minute taken by research ships such as the Gulfrex. The analysis also reveals whether the seep comes from an oil or a gas deposit. During the year the Gulfrex continued its exploration of the world's continental shelves, logging more than 35,000 miles while rounding Africa en route to the Far East;

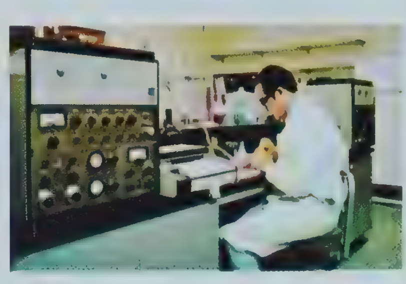


- The carrying out of a third field test of a new drilling method under development by GR&DC was conducted late in 1969. The process utilizes high-velocity streams of an abrasive-laden slurry to cut grooves on the bottom of the hole. The ridges of rock left between the grooves are mechanically removed by rotating a bit which incorporates both the nozzles and ridge breakers. The technical feasibility of the new method, called jetted particle drilling, has been demonstrated at depths well below 10,000 feet in very hard rock. The new process is expected to be economic after certain improvements are made to the equipment used to handle the abrasive-laden slurry on the surface. These improvements are now under way;
- Attacking a basic oil-recovery problem, that even after the most advanced conventional methods are used, a substantial amount of oil is left behind in most reservoirs; on the average more than one-half that originally present. The application of heat to such reservoirs will produce virtually all the oil left behind, but it is not always economical to add the heat because of the cost or because certain properties of the reservoir are adverse to the process. Heat may be added to the reservoir either by the injection of steam or by burning part of the oil in the reservoir. Burning is done by injecting air into the reservoir after the oil in the reservoir is ignited. GR&DC has developed operating technology required for both air and steam injection. Three air and one steam injection projects are now in active operation by Gulf Oil Company–U.S. with technical aid and guidance from GR&DC;
- The development of a computer system, called

GULFLOG, for interpreting acoustic, nuclear, and electrical resistivity data obtained from exploratory and production well logs. GULFLOG provides geologists and engineers with vital information about the subsurface geology and the presence of oil or gas accumulations. This approach to log interpretation greatly increases the amount of useful information obtained from currently available well logs;

- The continuation of a long-range research program which aims at developing a more efficient technology than is now available for converting coal into liquid, synthetic crude oil. A part of this effort involves determining types of coal that offer the most economical conversion, and maintaining a flow of such information to Gulf Mineral Resources Company for guidance in its exploratory activity;

- Putting into operation a semi-commercial scale plant in California for the manufacture of protein animal feed by hydrocarbon fermentation. This plant is a pilot operation necessary to study both the process which was developed by Gulf Research, and the economics that will be involved in possible full-scale commercial production;



- Development of a chemical that renders corn seed immune from the effects of herbicides used to kill weeds in large scale corn farming. When corn is grown on land treated with weed killer the corn also is frequently affected. When, however, seed corn is treated with the new chemical before being planted, it becomes immune to the effects of the weed killer;

- Continuation of research and development on novel methods to prevent or reduce the polluting effects of oil spills that occur when tankers are holed;

- The first commercial installation of a Gulf process to reduce to 1% the sulphur content of residual fuel oil is now on stream in Japan;

- The introduction of a mobile air conservation van and water quality unit for use in Gulf installations to determine the quality of air and water and to suggest any remedial action necessary to meet local standards;

- The perfection of the IsoGulf low-temperature hydrocarbon conversion catalyst, which won a scientific award for originality and which permits the production of more gasoline with a high octane number from the same amount of crude oil while requiring a lower investment than is true of present generation catalysts.

Consolidated Statements of Income and Earnings Retained in the Business

	Years Ended December 31	
INCOME	1969	1968
REVENUES:		
Sales and other operating revenues	$6,109,859,000	$5,595,660,000
Dividends, interest and other revenues	127,816,000	61,423,000
	6,237,675,000	5,657,083,000
DEDUCTIONS:		
Purchased crude oil, products and merchandise	1,430,964,000	1,356,083,000
Operating, selling and administrative expenses	1,867,573,000	1,647,160,000
Taxes on income and general taxes	1,773,487,000	1,555,561,000
Depreciation, depletion, amortization and retirements	450,770,000	420,258,000
Interest on long-term debt	87,204,000	49,367,000
Income applicable to minority interests in subsidiaries consolidated	17,119,000	2,335,000
	5,627,117,000	5,030,764,000
NET INCOME	$ 610,558,000	$ 626,319,000
NET INCOME PER SHARE	$2.94	$3.02
EARNINGS RETAINED IN THE BUSINESS		
BALANCE AT BEGINNING OF YEAR	$3,257,244,000	$2,921,551,000
Net Income	610,558,000	626,319,000
	3,867,802,000	3,547,870,000
Cash Dividends paid ($1.50 and $1.40 per share, respectively)	311,563,000	290,626,000
BALANCE AT END OF YEAR*	$3,556,239,000	$3,257,244,000

*Approximately $112,000,000 of consolidated earnings retained in the business is restricted as to payment of dividends.

The notes on pages 27 to 29 are an integral part of the financial statements.

Consolidated Statement of Financial Position

	December 31 1969	December 31 1968
ASSETS:		
Current Assets:		
Cash	$ 87,701,000	$ 89,682,000
Marketable securities, at cost, approximating market value	465,113,000	599,027,000
Receivables, less allowance for doubtful accounts of $13,889,000 and $13,494,000, respectively	1,138,131,000	953,619,000
Inventories of crude oil, products and merchandise	479,511,000	481,823,000
Materials and supplies	83,707,000	80,000,000
Prepaid expenses	71,131,000	75,790,000
Total Current Assets	2,325,294,000	2,279,941,000
Investments and Long-Term Receivables:		
Associated companies (50% or less owned)	169,064,000	165,833,000
Other	436,863,000	371,333,000
Total Investments and Long-Term Receivables	605,927,000	537,166,000
Properties, Plants and Equipment, at cost, less accumulated depreciation, depletion and amortization	5,069,191,000	4,621,846,000
Deferred Charges	104,412,000	59,324,000
TOTAL ASSETS	$8,104,824,000	$7,498,277,000
LIABILITIES:		
Current Liabilities:		
Notes payable and current portion of long-term debt	$ 192,983,000	$ 92,190,000
Accounts payable and accrued liabilities	841,815,000	842,962,000
Accrued United States and foreign income taxes	201,799,000	160,419,000
Total Current Liabilities	1,236,597,000	1,095,571,000
Long-Term Debt	1,447,531,000	1,305,328,000
Deferred Income Taxes	80,452,000	35,685,000
Deferred Revenues	43,357,000	54,729,000
Other Long-Term Liabilities	39,168,000	43,233,000
Minority Interests in Subsidiaries Consolidated	217,828,000	212,940,000
TOTAL LIABILITIES	3,064,933,000	2,747,486,000
SHAREHOLDERS' EQUITY:		
Capital	1,483,652,000	1,493,547,000
Earnings Retained in the Business	3,556,239,000	3,257,244,000
TOTAL SHAREHOLDERS' EQUITY	5,039,891,000	4,750,791,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$8,104,824,000	$7,498,277,000

The notes on pages 27 to 29 are an integral part of the financial statements.

Consolidated Statement of Source and Application of Funds

	Years Ended December 31	
	1969	1968
SOURCES:		
Net income	$ 610,558,000	$ 626,319,000
Depreciation, depletion, amortization and retirements	450,770,000	420,258,000
Income applicable to minority interests	17,119,000	2,335,000
Long-term borrowings, less repayments	207,354,000	647,230,000
	1,285,801,000	1,696,142,000
APPLICATIONS:		
Properties, plants and equipment	953,468,000	1,064,499,000
Related business investments	88,071,000	24,026,000
Cash dividends to Gulf shareholders	311,563,000	290,626,000
Cash dividends by subsidiaries to minority shareholders	11,298,000	8,904,000
Acquisition of Gulf stock for corporate purposes	8,609,000	1,577,000
Other applications—net	8,465,000	4,779,000
	1,381,474,000	1,394,411,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ (95,673,000)	$ 301,731,000

Notes to Financial Statements

Principles of Consolidation

The accounts of Gulf Oil Corporation and all subsidiary companies more than 50% owned are included in the consolidated financial statements. Investments in 50% owned companies are stated on an equity basis. Investments in less than 50% owned companies and other investments are stated at cost.

Balances and transactions in foreign currencies have been converted to United States dollars as follows: net current assets, long-term receivables and long-term debt—at rates current at end of period; long-term investments and properties, plants and equipment—at rates current on dates of acquisition; accumulated depreciation, depletion and amortization and related provisions against income—on basis of dollar value of the related assets; and operating income and other expenses at average monthly rates.

Consolidated net assets related to operations in the Western Hemisphere amount to $4,021,000,000 and in the Eastern Hemisphere to $1,019,000,000. Consolidated net income includes amounts attributable to operations in the Western Hemisphere of $469,000,000 and in the Eastern Hemisphere of $142,000,000.

Inventories

Inventories of crude oil, products and merchandise generally are valued at average cost applied on the "last-in, first-out" basis, which in the aggregate is lower than market value. Prior to 1969 such inventories in the Eastern Hemisphere generally were valued at the lower of moving average cost or market; the effect of this change was not material. Canadian subsidiaries value such inventories at the lower of average cost applied on the "first-in, first-out" basis, or market value.

Materials and supplies are generally valued at cost or less depending on the condition of the items.

Research and Development Expenditures

Research and development costs generally are charged to income as incurred. However, Gulf General Atomic Incorporated, a wholly owned subsidiary, has deferred such costs relative to a substantial development program in the nuclear energy field and is amortizing the total estimated costs over the development period. After considering related deferred income taxes, $23,900,000 has been deferred in the accounts at December 31, 1969.

Commitments

The companies have noncancellable tanker charters expiring at various dates to the year 1979 for which minimum rentals for 1970 are approximately $32,000,000. The companies also have noncancellable leases for service stations, office space, tank cars and other property for which minimum rentals payable in 1970 are estimated at $58,000,000. Rental income from all such properties subleased and chartered to others is estimated at $37,000,000 for 1970.

Long-Term Debt

	December 31 1969	December 31 1968
GULF OIL CORPORATION:		
6⅝% sinking fund debentures due in 1993	$ 200,000,000	$ 183,660,000
5.65% notes payable 1970 through 1990	139,334,000	—
5.35% sinking fund debentures due in 1991	100,000,000	100,000,000
5 to 5¼% notes payable 1970 through 1973	71,200,000	89,000,000
4½% notes payable in 1970	61,000,000	61,000,000
3% note payable 1970 through 1973	55,200,000	69,000,000
2½% note payable 1970 through 1972	28,000,000	34,000,000
4⅞% notes payable 1970 through 1982	22,750,000	24,500,000
Other obligations	22,687,000	23,549,000
	700,171,000	584,709,000
CONSOLIDATED SUBSIDIARIES:		
United States dollars—3¾ to 9% payable 1970 through 1991*	361,234,000	380,911,000
German marks—5¾ to 6⅞% payable 1970 through 1983	147,575,000	135,035,000
Canadian dollars—3½ to 8½% payable 1970 through 1989	133,126,000	91,982,000
Swiss francs—5 to 7% payable 1970 through 1982	92,470,000	92,206,000
Italian lire—7½% payable 1974 through 1985	59,723,000	—
Dutch guilders—6 to 7¼% payable 1970 through 1988	39,913,000	39,913,000
British pounds—4 to 6¾% payable 1970 through 1984	27,670,000	28,577,000
Other currencies	16,288,000	17,483,000
	1,578,170,000	1,370,816,000
INCLUDED IN CURRENT LIABILITIES	130,639,000	65,488,000
LONG-TERM DEBT	$1,447,531,000	$1,305,328,000

*Largely borrowings outside United States.

The companies have commitments in the ordinary course of business for the acquisition or construction of properties, plants and equipment and for the purchase of materials, supplies and services which in the opinion of the officers are not significant in relation to the net assets of the companies.

Contingent Liabilities

The companies were contingently liable for guarantees of loans payable by associated companies, owners of service stations and others in the amount of $106,000,000. The companies also have certain other contingent liabilities, including claims resulting from oil leakage in the Santa Barbara, California, Channel. Officers of the corporation are of the opinion that adequate provision for these contingencies has been made in the accounts or through insurance and that no losses of any consequence will result.

Incentive Compensation Plan

Pursuant to the terms of the plan, the provision for 1969 was $6,461,000. To the extent that this amount is awarded to participants, part will be paid in cash or stock of the corporation in 1970 and the balance of the total amount awarded will be payable in cash or stock in annual installments in future years, subject to forfeiture provisions.

Pension Plans

The companies have various pension programs covering substantially all of their employees. As of January 1, 1969, the corporation's principal pension plan was amended to provide additional benefits. Effective with these changes, an increase was made in the annual rate for recognition of unrealized appreciation in investments held by the trustee and in the rate of interest used in the actuarial valuation. The effect of these changes on the year's net income was not material.

During the year the companies charged to income approximately $20,000,000 for current and prior service pension costs. The companies' general policy is to fund pension costs accrued. As of December 31, 1969, estimated unfunded prior service costs of the programs aggregated approximately $124,000,000 which generally is being amortized over no more than 15 years.

Properties, Plants and Equipment

	December 31, 1969		Year 1969	
	Gross Investment at Cost	Accumulated Depreciation, etc.	Depreciation, etc. charged to income	Expenditures
	(Thousands of Dollars)			
Exploration & Production	$4,480,526	$2,463,122	$ 225,677	$ 388,540
Natural Gas Liquids	293,714	142,905	12,322	21,104
Transportation	801,462	311,193	29,188	103,593
Refining	1,358,304	728,332	50,940	132,463
Chemicals	568,076	187,722	29,011	88,290
Marketing	1,776,187	579,987	84,306	186,622
Other	318,481	114,298	19,326	32,856
	$9,596,750	$4,527,559	$ 450,770	$ 953,468

Costs of undeveloped leases generally are amortized from date of acquisition, based on average holding period, and are transferred to producing properties if production is obtained; the costs of leases relinquished are charged to accumulated amortization. Exploration costs and costs of dry holes are charged currently to income. The provisions for depreciation and depletion of producing leases, lease and well equipment and intangible drilling costs represent charges per unit of production based on estimated recoverable oil and gas reserves.

Provisions for depreciation and amortization of properties other than those of the exploration and production departments are generally determined on the group method based on estimated remain-

Capital Stock, Other Capital and Treasury Shares

	Capital Stock		Other Capital	Treasury Shares at Cost		Total Capital
	Number of Shares	Amount	Amount	Number of Shares	Amount	Amount
Balance December 31, 1968	211,770,696	$882,378,000	$708,187,000	(4,163,930)	$ (97,018,000)	$1,493,547,000
Additional costs related to properties acquired from majority-owned subsidiary liquidated in 1966; such properties are included in the consolidated statements at that subsidiary's historical cost	—	—	(6,876,000)	—	—	(6,876,000)
Sale of stock to option holders	107,853	449,000	2,573,000	5,776	118,000	3,140,000
Other acquisitions (net)	—	—	64,000	(155,161)	(6,223,000)	(6,159,000)
Balance December 31, 1969	211,878,549	$882,827,000	$703,948,000	(4,313,315)	$(103,123,000)	$1,483,652,000

There are 300,000,000 shares of capital stock authorized without par value. At December 31, 1969, there were 207,565,234 shares outstanding after deducting shares held in the treasury for corporate purposes.

ing useful economic lives of groups of related properties, plants and equipment. Under this method rates are revised when a change in life expectancy becomes apparent. Maintenance and repairs are charged to income and renewals and betterments which extend the physical or economic life of the properties are capitalized.

Properties retired or otherwise disposed of are eliminated from the property accounts and the amounts, after adjustment for salvage and dismantling expenses, are charged to accumulated depreciation or depletion; only gains and losses on extraordinary retirements, retirements involving entire groups of properties and properties retired or otherwise disposed of by a Canadian subsidiary are taken to income.

Taxes on Income and General Taxes

	1969	1968
Consumer excise taxes	$1,156,578,000	$1,037,112,000
U. S. and foreign income taxes	447,149,000	369,045,000
Import duties	35,902,000	33,310,000
Other taxes	133,858,000	116,094,000
	$1,773,487,000	$1,555,561,000

The companies practice interperiod tax allocation with respect to all significant timing differences. The tax effect of accounting for these items in different periods for book and tax purposes, which in 1969 amounted to $66,000,000, is included in the provision for U. S. and foreign income taxes.

The current U. S. income tax provision is reduced by the amount of the investment tax credit. The effect on income in 1969 and 1968 was not material.

Stock Options

A summary of changes for the year in Capital Stock reserved for sale to officers and employees under stock options is as follows:

	Reserved Shares		
	Options Granted	Not Optioned	Total
Balance, December 31, 1968	727,730	1,000,000	1,727,730
Options granted March 20, 1969	187,100	(187,100)	—
Options exercised at prices ranging from $13.53 a share to $36.66 a share	(113,629)	—	(113,629)
Options expired	(7,300)	1,700	(5,600)
Balance, December 31, 1969	793,901	814,600	1,608,501

The balance of reserved shares under option at December 31, 1969 consisted of unissued stock reserved for options of which (a) 608,501 shares are presently exercisable at prices ranging from $18.96 to $36.66 a share (fair market values at dates granted), and expire periodically to April 18, 1978 and (b) 185,400 shares are exercisable for a period of four years beginning March 20 ,1970 at $42.94 a share (fair market value at date granted).

Bolivia

On October 17, 1969, Gulf's business and assets in Bolivia were seized by the Bolivian government. Negotiations with that government are continuing and in the opinion of officers of the corporation final settlement of the matter will not result in any significant loss to the corporation.

Opinion of Independent Accountants

PRICE WATERHOUSE & CO.
TWO GATEWAY CENTER
PITTSBURGH 15222

February 24, 1970

To the Shareholders and Board of Directors of Gulf Oil Corporation

In our opinion, the accompanying statement of financial position, the related statements of income and earnings retained in the business and the statement of source and application of funds present fairly the consolidated financial position of Gulf Oil Corporation and its subsidiaries at December 31, 1969, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Gulf Oil Canada Limited and its subsidiaries; our opinion, insofar as it relates to the amounts included for these companies, is based upon the report of other independent accountants.

Price Waterhouse & Co.

Five Year Financial Summary

	1969	1968	1967	1966	1965
		(Dollar amounts in thousands)			
Sales and other operating revenues (including consumer excise taxes)	$6,109,859	$5,595,660	$5,109,597	$4,655,983	$4,185,253
Income before extraordinary items	$ 610,558	$ 626,319	$ 568,347	$ 504,762	$ 427,233
Per share*	$2.94	$3.02	$2.74	$2.44	$2.06
Per dollar of sales and other operating revenues	10.0¢	11.2¢	11.1¢	10.8¢	10.2¢
Net income	$ 610,558	$ 626,319	$ 578,287	$ 504,762	$ 427,233
Per share*	$2.94	$3.02	$2.79	$2.44	$2.06
Per dollar of sales and other operating revenues	10.0¢	11.2¢	11.3¢	10.8¢	10.2¢
Cash dividends paid	$ 311,563	$ 290,626	$ 259,142	$ 217,583	$ 191,723
Per share (after stock split)	$1.50	$1.40	$1.25	$1.05	$.925
Financial condition at year end					
Total assets	$8,104,824	$7,498,277	$6,482,024	$5,908,267	$5,229,278
Working capital (current assets less current liabilities)	$1,088,697	$1,184,370	$ 882,639	$ 908,551	$ 701,767
Ratio of current assets to current liabilities	1.88	2.08	1.86	2.04	1.89
Long-term debt (includes portion in current liabilities)	$1,578,170	$1,370,816	$ 723,586	$ 632,885	$ 423,930
Employed capital (shareholders' equity, long-term debt, minority interests, deferred revenues)	$6,879,246	$6,389,276	$5,412,622	$5,004,876	$4,436,358
Shareholders' equity	$5,039,891	$4,750,791	$4,412,064	$4,088,558	$3,818,502
Per share*	$24.28	$22.88	$21.27	$19.73	$18.43
Properties, plants and equipment—gross	$9,596,750	$8,797,524	$7,900,248	$7,328,389	$6,844,250
Properties, plants and equipment—net	$5,069,191	$4,621,846	$4,068,310	$3,723,196	$3,438,579
Expenditures for plants and related business investments	$1,041,539	$1,088,525	$ 864,852	$ 715,330	$ 594,514
Depreciation, depletion, amortization and retirements	$ 450,770	$ 420,258	$ 367,746	$ 328,398	$ 306,091
Exploration expense including dry holes	$ 122,935	$ 109,550	$ 106,244	$ 101,030	$ 91,203
General taxes and import duties	$ 169,760	$ 149,404	$ 146,470	$ 129,105	$ 120,840
Income taxes	447,149	369,045	377,681	309,107	228,494
Consumer excise taxes	1,156,578	1,037,112	907,476	874,146	800,512
Total taxes	$1,773,487	$1,555,561	$1,431,627	$1,312,358	$1,149,846
Shareholders at year end	199,967	171,661	163,450	162,031	159,082
Shares outstanding at year end (in thousands)*	207,565	207,607	207,436	207,216	207,178
Wages, salaries and employee benefits	$ 574,393	$ 500,299	$ 456,341	$ 419,295	$ 388,143
Employees at year end	60,000	60,300	58,300	55,600	55,200
Employed capital per employee (actual)	$ 114,654	$ 105,958	$ 92,841	$ 90,016	$ 80,369

*Based on shares outstanding at the end of each year after giving effect to the two-for-one stock split in 1968.

A financial and statistical supplement to the 1969 Annual Report is available to shareholders. Copies may be obtained by writing to Russell G. Connolly, Vice President and Secretary, Gulf Oil Corporation, P.O. Box 1166, Pittsburgh, Pennsylvania 15230.

Five Year Operating Summary

	1969	1968	1967	1966	1965
Net crude oil, condensate and natural gas liquids produced—daily average barrels					
United States	602,300	598,800	575,700	519,700	482,700
Canada	85,800	80,100	74,100	67,500	64,100
Other Western Hemisphere	209,000	191,800	201,600	159,300	162,400
Eastern Hemisphere	1,906,900	1,674,000	1,523,300	1,486,800	1,393,600
Net crude oil, condensate and natural gas liquids produced	2,804,000	2,544,700	2,374,700	2,233,300	2,102,800
Net natural gas produced—thousand cubic feet per day					
United States	2,509,500	2,367,000	2,151,800	1,876,400	1,661,500
Canada	355,000	315,000	283,100	269,700	270,300
Other Western Hemisphere	78,600	87,400	89,700	86,100	73,700
Eastern Hemisphere	245,000	225,000	163,400	134,400	86,900
Net natural gas produced	3,188,100	2,994,400	2,688,000	2,366,600	2,092,400
Gross wells drilled during the year (A)	1,326	1,470	1,242	1,253	1,358
Net wells drilled during the year (B)	914	1,045	841	862	966
Crude oil processed—daily average barrels (C)					
United States	687,500	687,200	673,000	642,700	608,500
Canada	197,300	194,900	191,400	182,300	156,600
Other Western Hemisphere	145,400	175,800	191,500	183,200	180,500
Eastern Hemisphere	422,800	336,300	330,700	315,200	290,400
Crude oil processed	1,453,000	1,394,200	1,386,600	1,323,400	1,236,000
Refined products sold—daily average barrels					
United States	796,200	786,600	740,100	707,400	658,300
Canada	186,700	184,800	193,500	176,100	161,500
Other Western Hemisphere	74,400	80,500	68,300	71,800	69,400
Eastern Hemisphere	392,900	344,400	327,400	297,600	275,800
Refined products sold	1,450,200	1,396,300	1,329,300	1,252,900	1,165,000
Coal mined—daily average tons	20,900	25,300	24,600	24,200	22,400
Chemicals sold—daily average tons					
United States	8,500	8,500	6,900	7,600	6,700
Canada	1,100	1,100	1,200	1,300	1,300
Other Western Hemisphere	200	300	100	—	—
Eastern Hemisphere	400	200	200	100	—
Chemicals sold	10,200	10,100	8,400	9,000	8,000

Operating data include 100% of volumes of all subsidiaries consolidated (more than 50% owned).

(A) Gross wells drilled represent the total number of wells in which all or a part of the working interest is owned by the company.

(B) Net wells drilled represent only that part of the working interest applicable to the company (i.e., the sum of all fractional interests).

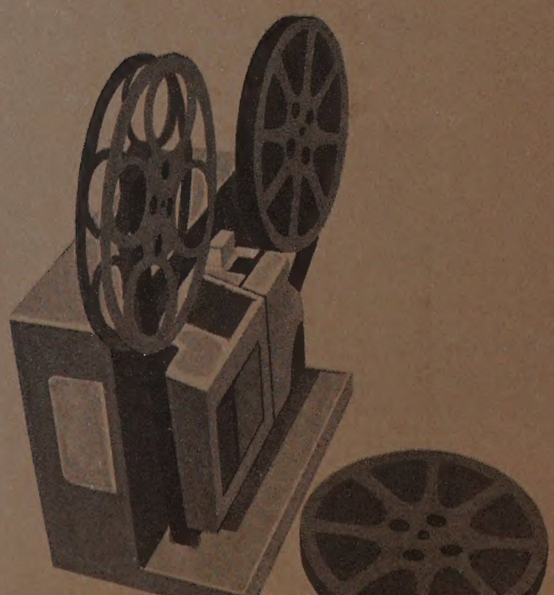
(C) Crude oil processed includes portion processed by outsiders for Gulf's account.

This year's annual report is illustrated with scenes from Gulf's new color motion picture, "POWER FOR PEOPLE".

Essentially, this 16 mm sound film, (running time: 30 minutes) is a picturization of the people of many of the countries in which Gulf operates, their customs and their traditions. Into its structure has been woven the various ways Gulf-produced energy finds its way into their lives.

"POWER FOR PEOPLE" now is available without charge upon request of program chairmen for showings to civic clubs, service organizations, school, church and social groups, and similar organizations.

Requests should be sent to Gulf Oil Corporation, Advertising and Public Relations Department, P. O. Box 1166, Pittsburgh, Pa. 15230, at least 30 days prior to date of contemplated film use.



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